880

C01751

TOP BANKS RANKED BY CAPITAL
Tables begin on page 18

AMERICAN BANKER

NEWSPAPER
155389000015 2/ 5/07 C11
STATISTICAL REFERENCE INDEX
JOHN P KENNEDY
4520 EAST - WEST HIGHWAY
SITE 800
BETHESDA MD 20814

VOL. CLV NO. 76 Thursday, April 19, 1990 155th year

Frozen Accounts May Spur Suits Against Banks

By ROBERT M. GARSSON

WASHINGTON — Banking experts warned Wednesday that 173 financial institutions covered by a court order freezing accounts linked to the alleged laundering of drug money face potential legal problems from both their customers and the government.

"Banks are being placed between two warring parties," said Karen Shaw, executive vice president of the Institute for Strategy Development.

Although amendments to financial privacy law have provided good-faith exemptions for institutions that cooperate with the government, "banks still face considerable liability," Ms. Shaw said.

ANALYSIS: *Follow-up on the news*

For example, if a court order contains an incorrect account number and a financial institution freezes money of a customer not under investigation, the institution could face a lawsuit, Ms. Shaw said.

Enmeshing Investigations

The larger risk is of being tangled in an investigation of money laundering.

So far, law enforcement officials have not suggested that any of the 173 banks knew the accounts may have been used illegally. But officials may conclude that some of the institutions should have known they were dealing with drug dealers or drug money.

In that case, the institutions may be required to prove that they took every reasonable step to ensure that the accounts represented legitimate businesses or individuals.

'Know Your Customer'

"There are requirements to know your customer, and there is a concept known as 'willful blindness,' which means you knew something was amiss but didn't follow up," said John Byrne, a lawyer who specializes in money-laundering issues for the American Bankers Association.

At a minimum, any bank investigated in connection with the accounts frozen Tuesday is likely to spend millions of dollars assembling a defense.

"They are going to run up some serious dollars" in expenses, said Ms. Shaw. "The legal departments don't know about every account, so they are going to have to go back and document how the account was handled, whether CTRs were filed and so forth." CTRs, or

See **FROZEN** *page* **36**

INSIDE NEWS

FINANCE

AMES DEPARTMENT Stores is said to be talking to several banks, including Chemical, about obtaining debtor-in-possession financing in the event it files for protection under Chapter 11. *Page 38*

INTERNATIONAL

AMERICAN EXPRESS plans to build a tangible presence in Eastern Europe by the end of 1990. *Page 12*

CONSUMER

A MARKET DATA FIRM in New York defines the psychological profiles and attitudes of current or prospective customers using a test that measures self-esteem. *Page 6*

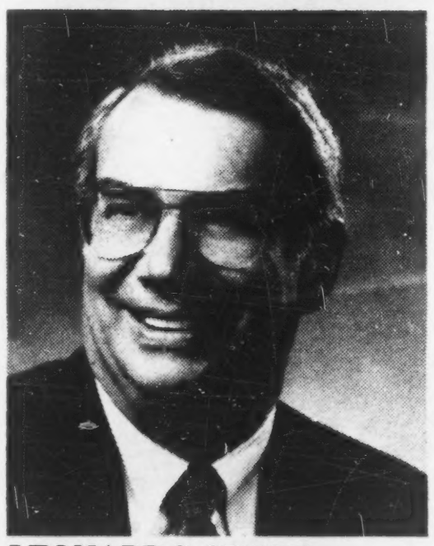
TECHNOLOGY

SOVRAN FINANCIAL and Citizens and Southern have been working for the past six months to plan the consolidation of their operations. *Page 3*

MANAGEMENT

QUALMS OVER QUAKES, along with concerns about a city's climate and image, can play a big role in determining where bank executives relocate. *Page 8*

THRIFTS



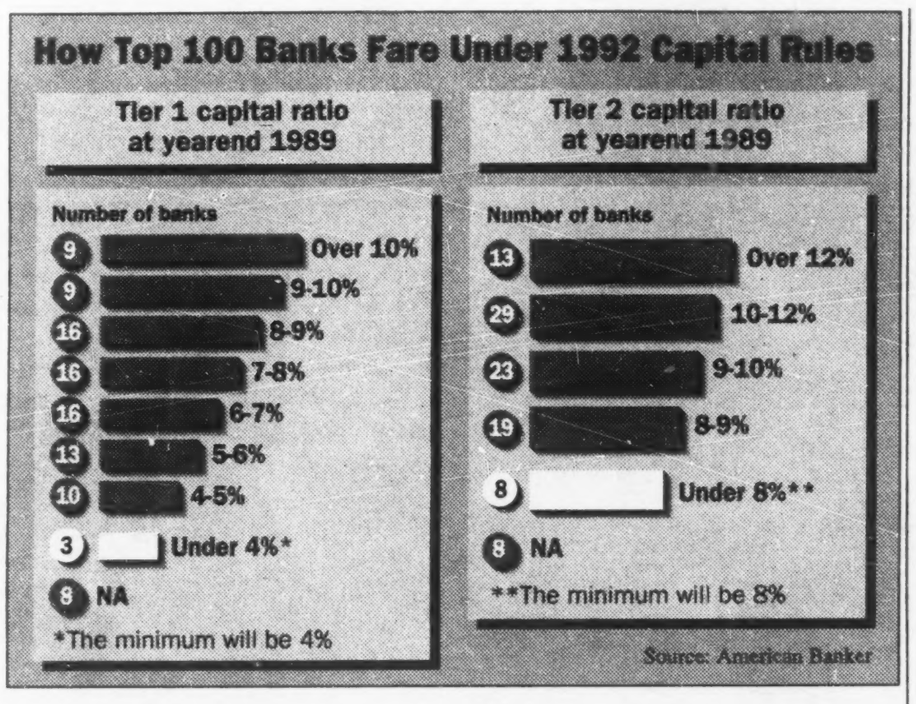
LEONARD S. SIMON, chairman of Rochester Community Savings Bank, tackled the company's growth problems by winning permission to acquire a sickly S&L in New Jersey. *Page 5*

COMMENT

THE S&L FIASCO points up the danger of government intervention in markets, writes William M. Isaac. *Page 4*

INDEX

Company Index	2
The Lobbyists	4
Executive Changes	20
Classified Advertising	34
Bank and Thrift Stocks	39



Most Big U.S. Banks Already Meet Capital Levels of the Basel Accord

By KELLEY HOLLAND

NEW YORK — The overwhelming majority of America's largest banks already meet the tough international capital standards that take effect in 1992, an *American Banker* survey found.

As of yearend 1989, at least 89 of the nation's top 100 bank holding companies reported that they had total capital in excess of the regulatory minimum of 8% of risk-adjusted assets that will be enforced beginning in 1992.

The same number of banking companies said that their Tier 1 capital, which consists mostly of equity, was above the 4% minimum agreed to by international regulators in the Basel accord of 1987.

Leading America's banks in both categories was Republic New York Corp., which had total capital of 21.15% and Tier 1 capital of 12.45%. All together, 42 banks had total capital in excess of 10% of risk-weighted assets, and nine had Tier 1 capital above that level. (See tables starting on page 18.)

At the bottom of the banks reporting was Bank of New England Corp., which reported a total capital ratio of 3.45%. The bank's capital ratio suffered when its real estate portfolio led

See **MOST** *page* **19**

Curb on Unit Is New Blow To Bank of New England

By TOM LEANDER

In yet another setback to the recovery of Bank of New England Corp., federal regulators have imposed strict controls on the bank company's Connecticut unit because of "unsafe and unsound" real estate lending practices.

Similar cease-and-desist orders also are expected to be imposed on the bank company's Maine and Rhode Island subsidiaries in the next two or three weeks, Bank of New England said.

Analysts also said that the controls signaled further problems for the New England economy. Hartford-based Connecticut Bank and Trust Co. was widely considered Bank of New England's healthy unit.

Trend Is Foreseen

"It tells me that real estate problems in Connecticut are trailing Massachusetts by six to nine months," said James E. Moynihan, an analyst for Advest in Boston.

Bank of New England's stock was trading Tuesday afternoon

See **U.S.** *page* **9**

Chemical Seeks Bids on Units Managing Assets

By JED HOROWITZ

NEW YORK — Like several money-center banks that have thrown in the towel on managing investments for pension funds, Chemical Banking Corp. said Wednesday that it is exploring the sale of its institutional asset-management businesses in the United States and Britain.

Chemical said the units on the block have about $5 billion of assets under management. A Chemical spokeswoman would not say how much the bank hopes to get for the companies. She said the units were profitable last year, but she did disclose their revenues.

Several Shed Units

Several money-center banks have shed pension-fund management units in recent years. Generally, large banks have not had the reputation of producing the greatest investment returns for clients in a business that has a number of smaller, more flexible independent investment

See **CHEMICAL** *page* **36**

Retailers' Exodus from Credit Cards Could Bring Banks to Promised Land

By ELLEN MEMMELAAR

NEW YORK — After years of waiting for retailers to drop out of the credit card business, bankers may finally be getting their wish.

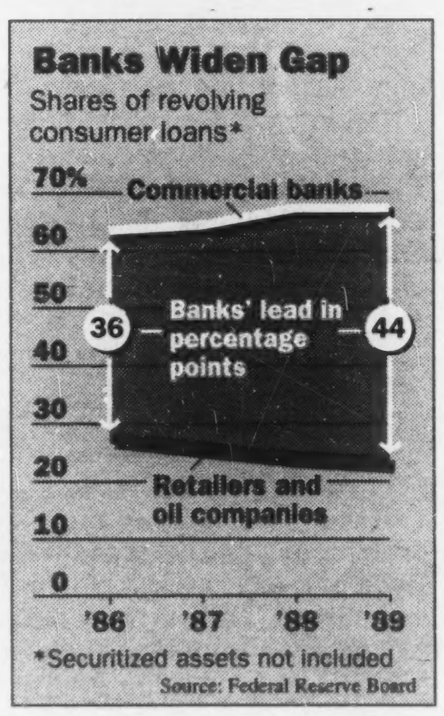
With costs rising and market share declining for nonbank issuers, industry sources say it is only a matter of time before they turn many of those operations over to banks.

Department stores, oil companies, and other merchants hold the biggest portion of revolving consumer loans not on banks' books – about one-fourth of the $177 billion in revolving credit that had not been securitized at the end of 1989.

While giant retail card issuers like Sears, Roebuck and Co. are unlikely to pull out of the business, banks' share of that market could rise substantially above their 67% at the end of 1989.

Profiting from the Retreat

Among those poised to take advantage of any exodus are Citicorp, the biggest banking provider of private-label card services to retailers, and GE Capital Corp., the General Electric Co. subsidiary that issues credit cards through a finance company and a bank it owns in Ohio.



Card industry observers point out that the trend is already well established. Banks have gained about four percentage points of the revolving-credit market share at retailers' expense since 1986.

The possibility of letting

See **RETAILERS** *page* **6**

COMMENT/ *By William M. Isaac*

S&L Fiasco Points Up Folly Of Tampering with Markets

The thrift crisis, culminating in the collapse of the Federal Savings and Loan Insurance Corp., has produced the most expensive bailout in U.S. history. The total cost, most of which will be borne by the taxpayers, is now estimated to be at least $325 billion.

There is an overriding lesson to be learned from this disgraceful episode in American finance: Government policies designed to impede the operation of markets, no matter how well intended, are doomed to fail.

Markets are like great oceans – powerful, unpredictable, and relentless. They eventually overcome any attempts to restrain them.

S&Ls Sprang Up to Meet Need

Thrifts were created in the 19th century in response to a market need. Banks were not satisfying the desire of consumers for a safe haven for their savings dollars and for a vehicle to finance their most basic and expensive need: housing. Thrifts were formed, initially as philanthropic organizations, to fill the void.

Across the span of a century, market conditions changed dramatically. Not only banks, but many other financial intermediaries, recognized the opportunities for profit in serving consumers and developed the products to do so.

In the meantime, the government intervened with a series of measures designed to limit competition. Interest rate controls were put in place to restrict price competition. A rate differential was established to encourage the flow of funds to thrifts. A deposit insurance system was created to maintain stability and to preserve a diverse (and uneconomic) banking structure.

Thrifts Restrained

Laws were passed mandating that thrifts continue to function as nondiversified lenders. Branching restrictions severely curtailed geographic expansion and diversification. And other fences were erected to keep various types of financial intermediaries on their own distinct playing fields.

These attempts to curb the

markets appeared to work for a time. They restrained the tides of change. But in the end, they could not prevent nature from taking its course. Inevitably, the pressures built to a level where the ocean of the market exploded through the barriers, devastating everything in its path.

The government made some feeble attempts to respond to these inexorable forces, but its efforts proved too little, too late, at best – and wrongheaded, at worst.

When it became clear by the late 1970s that banks and thrifts were fragile rafts in a sea of change, and were about to be engulfed in the stormy tide of rising and volatile market interest rates, the government abruptly removed rate controls.

Irreversible Damage

But by then, irreparable damage had already been done. Thrifts had amassed huge portfolios of long-term fixed-rate assets on the assumption that liability costs would always be controlled.

Overhead costs had risen to uneconomic levels as banks and thrifts invested heavily in staffs and brick and mortar to enable them to engage in nonprice competition.

Money market funds, commercial paper, and other devices had been developed by nonregulated competitors to bypass increasingly inefficient regulated entities.

Removal of interest rate controls was indeed too little, too late. But that was not the worst of it.

Overzealous Deregulation

Congress and the Reagan administration were repeatedly cautioned by experts that deregulation of interest rates unaccompanied by other substantial changes in the regulatory environment would be a prescription for disaster.

Specifically, they were warned that examination and supervision of depository institutions would need to be strengthened and the deposit insurance system would have to be reformed to ensure that the funds flowed to the stronger, more conservatively managed institutions instead of the highfliers willing to pay the highest rates.

The government not only ignored these warnings, but pursued diametrically opposed policies. The deposit insurance limit was raised from $40,000 to $100,000. The Treasury opposed and congressional hear-

See **THRIFT** *page* **27**

Mr. Isaac, former chairman of the Federal Deposit Insurance Corp., is managing director and CEO of the Secura Group, a bank and thrift consulting firm based in Washington.

THE LOBBYISTS/ *By Barbara A. Rehm*

ABA's Byrne Joins Advisory Task Force On Money Laundering

The banking industry will gain a voice in shaping federal money-laundering policies through this week's appointment of lobbyist **John J. Byrne** to a new task force that will advise drug czar **William Bennett** and, more broadly, his **Office of National Drug Control Policy**.

Mr. Byrne, senior federal legislative counsel for the **American Bankers Association,** says the **Drug-Related Financial Crimes Policy Group** aims to balance the needs of bankers as businessmen with the needs of government officials as law enforcers.

The task force may provide a means for bankers to derail burdensome money-laundering regulations – that sound good in theory but impose heavy compliance costs – *before* they get a public airing.

John J. Bryne

Mr. Byrne describes the panel as a "first-tier group to give feedback on notions, ideas, or concepts that may evolve over time into regulations." He adds: "I hope to bring a moderating influence to this group and to use it as a forum."

Officials from the Treasury, Justice, and State departments as well as the intelligence agencies are also being named to the task force. Academia, state and local governments will be represented as well. The group will meet every other month in Washington.

Mr. Byrne says he wants to use his presence on the panel to bolster the Financial Crimes Enforcement Network, a centralized data base; advise members of Congress about currency-reporting rules; and educate the banking industry on regulatory rules and the uses of the financial-crimes data base.

— Lisa A. Hammond/ Medill News Service

* * *

Magazine Poll Rates Clout on Capitol Hill

An April 16 *Business Week* diatribe on Congress includes lists of the most and least effective lobbies on Capital Hill.

The banking lobby made both lists.

"We were pleased to be at the top of the most-effective list," said **Edward Yingling,** ABA's executive director for government relations. "Obviously being on the worst list, too, was a bit ironic."

The magazine polled 304 of the Hill's top staffers to see which industries packed the most powerful punch. The "Industries with Clout" list was led by banking, which received 18% of the total votes. On the "... And Industries Without" list, banking was tied for sixth behind the likes of oil companies and utilities.

"You have to take these polls with a grain of salt," Mr. Yingling admitted. "They are not exactly scientific."

* * *

Bank Trade Groups Prepare for Summit

Leaders of the six bank-related trade associations will convene here May 7 for a "summit" meeting.

The top three or four elected officers as well as the top staff person at each association will huddle to hammer out common positions on gnawing issues such as deposit insurance reform, ways to restructure the banking industry, and the decline of the thrift industry.

The trade groups sending representatives are the **American Bankers Association,** the **Independent Bankers Association of America,** the **Consumer Bankers Association,** the **Association of Reserve City Bankers,** and the **Association of Bank Holding Companies.**

These so-called summit meetings have been held about twice a year for the past five years. The last confab was about a year ago, to discuss the thrift-bailout legislation, which was then in its infancy. These summits occasionally lead to lobbying breakthroughs, such as in 1986 when the trade groups built a broad coalition for repeal of the Glass-Steagall Act.

Donald W. Riegle, D-Mich., chairman of the **Senate Banking Committee,** has asked the trade groups for their thoughts on legislation to restructure financial-services regulation.

* * *

Banking Issues Fill Agenda of Realtors

The **National Association of Realtors** has come a long way since negotiating with the **American Bankers Association** two years ago about extending real estate powers to banks. Those talks broke off.

Now, the influential trade association is firmly set against allowing banks entry to the real estate business, says **Stephen D. Driesler,** chief lobbyist for the Realtors.

The bankers and Realtors may not be talking anymore, but when 7,000 NAR members hit town Friday for the trade group's midyear conference, banking issues will crowd the agenda.

Stephen D. Driesler

Among the bank-related issues to be discussed are the Merchants National case, loans-to-one-borrower limits, and proposals to permit first-time homebuyers to draw funds from tax-deferred individual retirement accounts for down payments.

"It seems like next year is shaping up as a critical year," Mr. Driesler said. Lawmakers, he said, "don't want to do anything on [expanded bank] powers without deposit insurance reform." Come January, Treasury is due to report back to Congress on a massive study of the deposit insurance system.

— Robert M. Garsson

AMERICAN BANKER

Established 1836
One State Street Plaza, New York, N.Y. 10004
212-943-6700

Editor: Fred R. Bleakley
Managing Editor: Thomas J. Ferris
Asst. Managing Editor: Jeffrey Kutler
Washington Bureau Chief: Robert Trigaux
News Editor: Eric M. Starkman
Features Editor: Patricia Stundza
Art Director: Pamela Budz Moriarty
Statistics Editor: L. Michael Cacace
Senior Columnist: Sanford Rose

STAFF WRITERS
Consumer Financial Services: Wendy Grover, Yvette D. Kantrow, Ellen Memmelaar
Finance: William Goodwin, Kelley Holland, Gordon Matthews
International: James R. Kraus
Mortgages: Phil Roosevelt
Real Estate: Stephen Kleege
Technology and Operations: Karen Gullo, Jeanne Iida, Richard Layne

BUREAUS
Washington: Bill Atkinson, Robert M. Garsson, Barbara A. Rehm. 202-347-5529
Atlanta: Kenneth Cline (bureau chief). 404-364-6572
Chicago: Nanine Alexander (bureau chief). 312-663-6380
Dallas: Steve Klinkerman (bureau chief). 214-748-5666
Los Angeles: Teresa Carson (bureau chief). 213-627-0953
Northeast: Jed Horowitz (bureau chief), Tom Leander, Franklin Smith. 212-943-6700
San Francisco: Sam Zuckerman (bureau chief). 415-986-8705
London: John Evans (bureau chief). 011-441-538-5959

COPY EDITORS
Winnie O'Kelley (assistant chief), Christine Arax, Terry Bormann, John Fulton, Edward Kulkosky, Robert Paul Molay, Howery Pack, Jane Sandiford

ART
Dylan Kreuzer (assistant director), Peggy Turbett, Carl Zeichner

FEATURES
Suzanne Christy, Joseph L. McCarthy (assistant editors)

STATISTICS
Harvey Glassman, John Ferring

Contributing Editor: Paul S. Nadler
Editorial Assistants: Lenore Adams, Jackie Albritton, Matthew H. Barthel, Rita Kay Meyer, Lou Schwartz

President: George W. Landgrebe
Executive Vice President, General Manager - Banking - Allan Priaulx
Executive Vice President Business Services - Con A. Rusling
Senior Vice President, Advertising - Christopher B. Edman
Vice President, Circulation - Madeline Krakowsky
Production Manager - Erwin W. Hambright

ADVERTISING
New York: 212-943-5280
Chicago: 312-663-6390
San Francisco: 415-421-7950
Los Angeles: 213-382-6346
Charlotte, N.C.: 704-522-7181
Classified: 800-221-1910
International: 212-943-4250
Telex: 421768 ABKR

The American Banker is published daily, except weekends and holidays.

©1990 by American Banker • Bond Buyer, a division of Thomson Publishing Corporation. All rights reserved.
"American Banker" is a registered trademark of American Banker • Bond Buyer. Registered in the U.S. Patent and Trademark Office.
Second Class Postage Paid at new York, N.Y., and at additional mailing offices in U.S.A.
(ISSN No. 0002-7561)
Postmaster: Send address changes to American Banker, One State Street Plaza, New York, N.Y. 10004
Subscription Rates: U.S. $635 a year, Canada $815. Canada Airmail and Foreign $1,120. Single copy $5.75
Telecopier: 212-943-2984

Photocopy and Reprint Permission
Those registered with the Copyright Clearance Center (21 Congress St., Salem, Mass., 01970) have permission to photocopy any article owned by American Banker • Bond Buyer. The fee is $5 per copy of each article.
Copying for other than personal use or internal reference is prohibited without express permission of the copyright owner. Copying of article or columns not owned by the American Banker • Bond Buyer is also prohibited.
Single copies available day of publication: $5.75; back-issue prices based on date of publication. Address requests for reprints or back issues to American Banker • Bond Buyer, One State Street Plaza, New York, N.Y. 10004, or call 212-943-4845.

Customer Service
For subscription orders, changes in address, help with late delivery, or to report unsatisfactory service, call 800-221-1809 (in New York State, call 212-943-9589 collect).

RISK-BASED CAPITAL

Top 100 Banking Companies' Risk-Based Capital

The new tier 1, tier 2, and total capital of the top 100 U.S. bank holding companies on Dec. 31, 1989
Banks are listed geographically, and within state by asset order (in thousands of dollars)

Rank		Total Assets	Tier 1 Capital	Tier 2 Capital	Total Capital	Primary Capital	Tier 1 Cap. Ratio	Total Cap. Ratio	Primary Cap. Ratio
	ALABAMA								
63	AmSouth Bancorporation	8,565,389	560,719	192,427	753,146	748,113	9.23	12.01	8.64
68	SouthTrust Corp.	7,763,166	496,656	179,156	675,812	622,991	7.02	11.27	7.96
89	First Alabama Bancshares, Inc.	5,549,612	489,441	47,866	537,307	526,577	N.A.	N.A.	9.43
99	Central Bancshares of the South	4,518,743	307,284	17,805	325,089	338,553	9.00[3]	10.00[3]	7.44
	ARIZONA								
57	Valley National Corp.	10,519,481	595,628	148,171	743,799	743,799	N.A.	N.A.	6.88
	CALIFORNIA								
3	BankAmerica Corp.	98,764,000	5,393,000	3,360,000	8,753,000	9,614,000	5.61	9.11	9.43
5	Security Pacific Corp.	83,943,000	N.A.	N.A.	N.A.	6,302,000	4.10	8.20	7.40
9	First Interstate Bancorp.	59,051,407	1,888,476	1,888,476	3,776,952	4,106,727	3.66	7.32	6.79
12	Wells Fargo & Co.	48,736,600	2,300,000	2,300,000	4,600,000	4,053,400	4.95	9.91	8.19
66	BanCal Tri-State Corp.	7,888,103	437,183[3]	316,588[3]	753,771[3]	610,573	5.57	9.61	7.57
97	City National Corp.	4,698,952	281,178	35,979	317,157	317,157	5.98	6.75	6.75
	COLORADO								
81	United Banks of Colorado, Inc.	6,080,435	418,915	88,527	507,442	499,923	9.26	11.22	8.13
	CONNECTICUT								
24	Shawmut National Corp.	27,855,000	1,625,000[1]	967,000[1]	2,592,000[1]	2,310,000	5.01[2]	8.74[2]	8.08
	DISTRICT OF COLUMBIA								
51	First American Bankshares	11,489,707	676,420	83,008	759,428	924,937	8.24	9.26	7.99
69	Riggs National Corp.	7,337,187	336,431	303,359	639,790	478,029	6.39	12.15	6.48
	FLORIDA								
23	Barnett Banks, Inc.	29,006,690	1,401,764	601,669	2,003,433	2,292,406	6.09[3]	8.61[3]	6.92
40	Southeast Banking Corp.	16,525,300	682,300	522,200	1,204,500	1,203,200	5.50	9.70	7.18
67	Florida National Banks, Inc. (a)	7,882,734	N.A.	N.A.	N.A.	615,149	N.A.	N.A.	7.63
88	First Florida Banks, Inc.	5,564,600	408,000[4]	49,000[4]	457,000[4]	456,983	10.20[4]	11.43[4]	8.14
	GEORGIA								
19	SunTrust Banks, Inc.	31,043,627	1,917,119	744,925	2,662,044	2,431,254	8.03	11.01	7.75
33	Citizens & Southern Corp.	23,312,787	1,120,000	722,600	1,842,600	1,715,696	5.71	9.40	7.29
93	Bank South Corp.	5,136,197	299,263	108,940	408,203	422,173	6.85	9.34	8.16
	HAWAII								
64	Bancorp Hawaii, Inc.	8,317,114	479,953	67,732	547,685	567,149	8.86	10.14	6.75
95	First Hawaiian, Inc.	5,080,061	281,120	44,154	325,274	315,274	7.76	8.97	6.16
	IDAHO								
100	West One Bancorp	4,349,656	339,217	29,806	369,023	326,093	8.50	10.67	7.42
	ILLINOIS								
13	First Chicago Corp.	47,907,000	2,517,000	1,791,000	4,308,000	4,198,000	4.70	8.00	8.60
22	Continental Bank Corp.	29,549,000	1,680,000	464,000	2,144,000	1,937,000	5.40	6.80	6.47
46	Harris Bankcorp, Inc.	12,374,355	705,000	243,000	948,000	938,605	6.20	8.40	7.43
55	Northern Trust Corp.	10,937,679	505,000	308,000	813,000	741,000	5.30	8.60	6.70
	INDIANA								
82	INB Financial Corp.	6,014,672	430,932	108,616	539,548	493,184	8.82	10.91	8.12
87	Merchants National Corp.	5,576,601	337,375	117,316	454,691	415,126	8.30	11.03	7.03
	LOUISIANA								
76	Hibernia Corp.	6,698,851	341,223[3]	75,600[3]	416,823[3]	460,290	6.14[3]	7.50[3]	6.80
98	First Commerce Corp.	4,657,952	218,512	135,077	353,589	286,990	6.58[4]	10.68[4]	6.10
	MARYLAND								
37	MNC Financial, Inc.	20,316,349	1,227,071	408,811	1,635,882	1,680,061	6.14	8.19	8.15
70	First Maryland Bancorp.	7,186,938	652,395	151,707	804,102	662,634	10.58	13.04	9.08
92	Equitable Bancorporation (b)	5,251,317	N.A.	N.A.	N.A.	332,590	N.A.	N.A.	N.A.
	MASSACHUSETTS								
15	Bank of Boston Corp.	39,177,911	N.A.	N.A.	N.A.	3,217,517	N.A.	N.A.	8.00
21	Bank of New England Corp.	29,772,719	508,558[1]	508,558[1]	1,017,116[1]	2,228,979	1.72[1]	3.45[1]	7.12
61	BayBanks, Inc.	9,913,271	574,196	136,152	710,348	658,928	6.76	8.36	6.70
60	State Street Boston Corp.	9,983,021	592,358	132,279	724,637	647,481	11.80	14.50	6.50
	MICHIGAN								
27	NBD Bancorp., Inc.	25,771,284	1,453,000	408,000	1,861,000	1,909,525	7.59	9.72	7.34
44	First of America Bank Corp.	12,792,682	822,811	180,230	1,003,041	1,053,419	9.73	11.86	8.17
48	Comerica, Inc.	12,149,495	596,000	416,000	1,012,000	1,011,667	6.43[4]	10.92[4]	8.19
52	Michigan National Corp.	11,479,973	731,672	207,650	939,322	940,151	8.81	11.32	8.10
58	Manufacturers National Corp.	10,304,507	636,555	118,720	755,275	789,483	8.10	9.61	7.57
65	Old Kent Financial Corp.	8,127,210	544,308	150,492	694,800	664,871	9.75	12.44	8.12
	MINNESOTA								
36	First Bank System, Inc.	20,820,243	941,300	684,580[3]	1,625,880[3]	1,638,792	4.40	7.60	7.70
30	Norwest Corp.	24,334,700	1,224,000	1,169,100	2,393,100	1,836,000	5.30	10.37	7.98

Table described: American Banker asked the top 100 U.S. bank holding companies (based on assets on Dec. 31, 1989) to report their yearend capital based on the new risked-based capital guidelines that go into effect at yearend 1992. American Banker also asked the banks to calculate the new risked based capital ratios— the Tier 1 and Total (Tier 1 + Tier 2) ratios, based on the final 1992 guidelines, whenever possible. Also shown is primary capital and the primary capital ratio as calculated by the banks for regulatory purposes. **The new guidelines:** On January 19, 1989, the Federal Reserve Board issued final guidelines to implement risk-based capital requirements for state member banks and bank holding companies. The guidelines are based on the framework adopted in July 1988 by the Basle Committee on Banking Regulations and Supervisory Practices, which includes the supervisory authorities of 12 major industrial countries. These guidelines redefine capital as "Tier 1" (core) and "Tier 2" (supplemental) capital; establish minimum interim requirements that must be reached by yearend 1990; and more stringent final requirements that must be reached by yearend 1992. **Tier 1 capital:** for bank holding companies, Tier 1 capital consists of: common stockholders' equity; qualifying noncumulative perpetual preferred stock; and minority interest in the equity accounts of consolidated subsidiaries minus goodwill; minus 50% of investments in certain subsidiaries (banking and finance subsidiaries that are not consolidated for accounting or supervisory purposes and, on a case by case basis, investments in other designated subsidiaries or associated companies at the Fed's discretion) and minus 50% of the reciprocal holdings of the capital instruments of other banking companies. **Goodwill:** With respect to goodwill, goodwill recorded prior to March 12, 1988 is grandfathered until 1992. After 1992, all godwill will be subtracted out. **Tier 2 capital:** consists of qualifying loan and lease loss reserves, perpetual preferred stock, mandatory convertible notes, perpetual debt, and subordinated term debt minus 50% investment in certain subsidiaries and minus 50% of the reciprocal holdings of the capital instruments of other banking companies. **Limits:** perpetual preferred stock included in Tier 1 capital is limited to 25% of the sum of all core capital elements. Also, for the purposes of calculating the total capital requirements, the amount of Tier 2 capital used in the computation cannot exceed the amount of Tier 1 capital. In addition, during the transition period, the guidelines reduce the amount of the allowance that may be included in total capital. **Interim guidelines:** By yearend 1990, the amount of the allowance qualifying as capital will be limited to 1.5% of an institutions weighted risk assets. By yearend 1992, the amount of the allowance qualifying for inclusion in Tier 2 capital cannot exceed 1.25% of weighted risk assets. In addition, combined subordinated debt and term preferred stock included in Tier 2 capital may not exceed 50% of Tier 1 capital. Under the 1990 guidelines, supplemental capital comprised of Tier 2 elements can be included in Tier 1 capital up to 10% of the sum of Tier 1 capital pluss goodwill. **The target ratios:** The Federal Reserve Board has established the following targets: **by yearend 1990,** the ratios of Tier 1 and total capital to weighted risk assets should be **3.625%** and **7.25%,** respectively. **By yearend 1992,** the ratios of Tier 1 and total capital to weighted risk assets should be **4.00%** and **8.00%,** respectively. **Primary capital** is the sum of total shareholders' equity, mandatory convertible debt, allowance for possible loan and lease losses, and minority interest in equity accounts of consolidated subsidiaries. **The primary capital ratio** is the regulatory ratio compiled by the banks. It is calculated by dividing primary capital by the sum of total assets and the allowance for possible loan and lease losses. **(a)—** On Jan. 29 First Union Corp. acquired Florida National Banks of Florida. **(b)—** On Jan. 18, MNC acquired Equitable Bancorp. **(c)—** On Jan. 2, Society Corp. acquired Trustcorp. **(d)—** On March 5, CoreStates acquired First Pennsylvania Corp. **(★)—** Data provided by SNL Securities are as of Sept. 30, 1989. **([1])—** Based on 1990 transitional rules. **([2])—** Ratios computed using the final 1992 rules. **([3])—** Estimated. **([4])—** Data provided by the Hoboken, N.J. office of **SNL Securities**, Charlottesville, Va. **N.A.—** Not available. **Compiled by American Banker, Copyright, 1990.**

Continued on page 22.

Most Big U.S. Banks Already Comply with International Rules for 1992

Continued from *page* 1
to massive writeoffs.

Most of the data for these findings – which mark the first time American banks have been ranked according to 1992 Tier 1 and total capital standards – came from a special *American Banker* survey of the top 100 banking companies in assets on Dec. 31, 1989. For banks not responding to this survey, data from SNL Securities Inc. were used.

(Of the top 100 banking companies as of yearend 1989, three lost their independence through mergers, and five declined to provide data. Those five were: Valley National Corp., Bank of Boston Corp., Fifth Third Bancorp European American Bancorp, and First Alabama Bancshares Inc.)

The growing capital strength of the industry came as no surprise to James J. McDermott, director of research at Keefe, Bruyette & Woods Inc.

Foreign banks have more hidden reserves.

"The regulatory attempt is to set a standard that's achievable by industry," he said.

Banks worked hard over the last year to boost their capital ratios, issuing new equity late last year and selling off assets.

"They've been working both the numerator and the denominator of the ratio to get to higher levels," Mr. McDermott said. Added Arthur P. Soter, a managing director at Morgan Stanley & Co.: "For most banks, the new capital requirements are a nonevent, particularly for the regionals. Their problem is too much capital, not too little. We have overcapacity in the banking industry."

Still, some American banks that already meet international standards may find it harder to comply with separate U.S. capital regulations, soon to be put in place, according to William Taylor, director of bank supervision at the Federal Reserve Board.

'Leverage Ratio' Up in the Air

Bank regulators are still arguing about the final level of equity capital that will be required under the so-called leverage ratio. But by the end of this year, banks will have to hold at least 3% equity capital to total assets.

Because the leverage ratio measures capital to total assets, not to risk-adjusted assets, it may result in higher capital requirements for some banks. That is because under risk-based capital rules, a bank that held only U.S. government securities, weighted zero risk by the rules, would not have to hold any capital. But under leverage ratio standards, it would have to maintain equity capital of 3%.

"For the bank with a very low risk portfolio, the 3% could bite harder than the 4% [Tier 1]," Mr. Taylor said.

Proposed to the leading industrial countries in 1987, the international capital requirements were designed to set worldwide standards to ensure bank safety and soundness.

By 1992, banks must calculate their capital adequacy by weighting assets according to their riskiness and deducting any loan-loss reserves in excess of 1.25% of total risk-adjusted assets.

Banks must maintain Tier 1 capital, mostly common equity and noncumulative perpetual preferred stock, equal to 4% of their risk-adjusted assets. They are also required to maintain total capital equal to 8% of risk-adjusted assets.

Besides Tier 1 capital, total capital includes subordinated debt, auction and term preferred stock, perpetual debt, mandatory convertible debt, and loan-loss reserves up to 1.25% of risk-adjusted assets. These are called Tier 2 capital.

The survey of the top 100 banking companies showed that regional and superregional banks reported higher capital ratios, on average, than did money-center banks, which have been plagued over the years with the need to boost reserves against loans to lesser-developed countries.

After Republic New York Corp., Manufacturers Hanover Corp. was the next strongest money-center, with a 10.24% total capital ratio, followed by J.P. Morgan at 10.10%. Manufacturers Hanover ranked 37th in total capital, and Morgan came in 40th.

Last year, money-centers in particular strove to build up their capital bases after sharply increasing LDC loan-loss reserves, tapping the equity markets in a big way in the autumn.

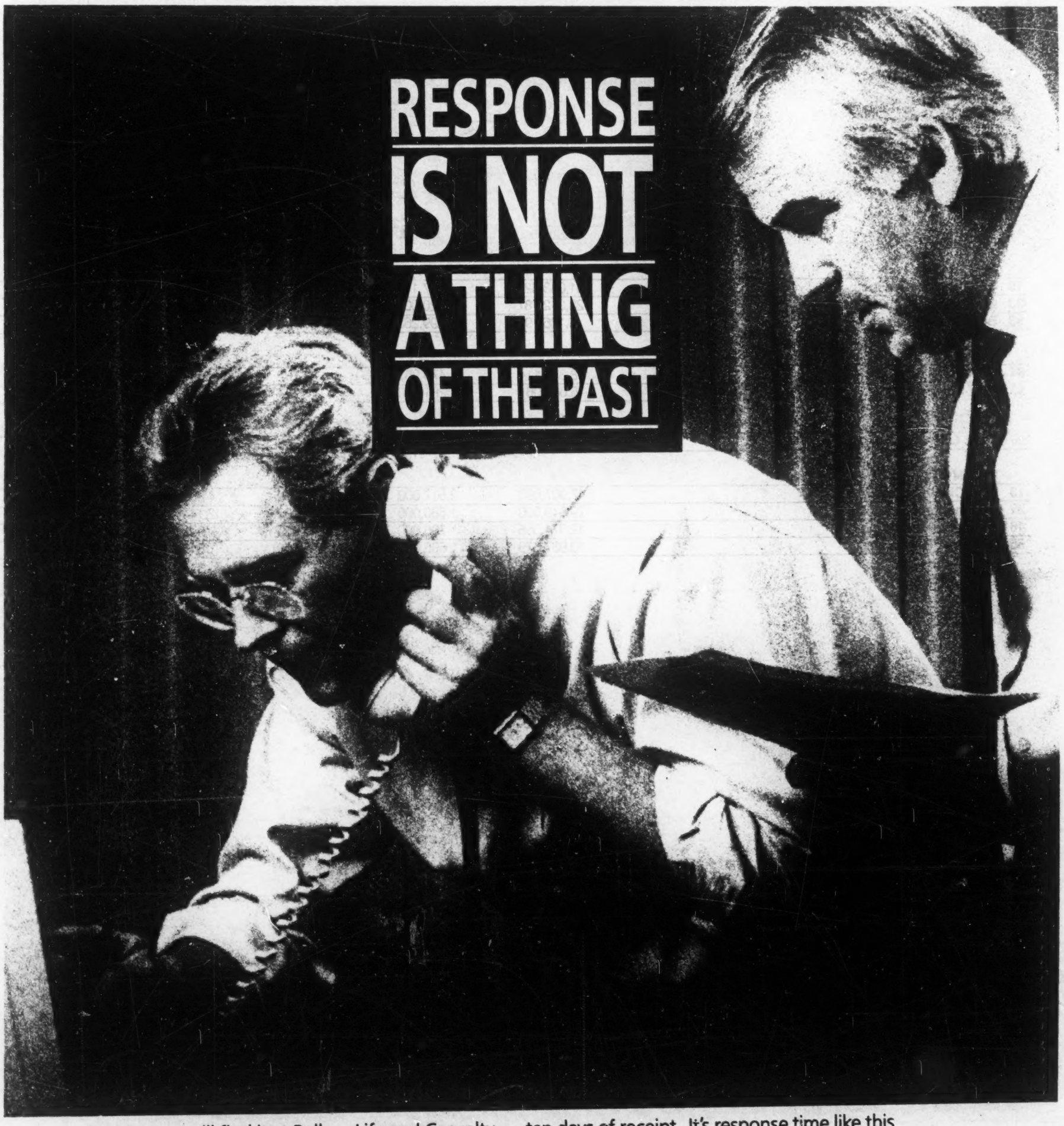
But this year, with concerns over financing for real estate and highly leveraged transactions unsettling the financial markets, banks have had a much more difficult time raising debt or equity. Of the major banks, only First Interstate Bancorp raised a notable amount of equity in the first quarter.

On the surface, the largest U.S. banks appear better capitalized today than many of their overseas counterparts. For example, Japanese banks reported an equity-to-assets ratio, roughly equivalent to Tier 1 capital, of 2.59% at the end of September 1989.

But appearances can be deceiving, according to Stuart H. Windt, a senior managing director at Marine Midland Banks.

Japanese banks have hidden reserves in the form of securities portfolios that have risen sharply in value in recent years. Even if those portfolios had dropped 45% by the time the Japanese banks reported their interim earnings in September 1989, their equity-to-asset ratios would have averaged 6.05%, according to Thomas E. Gove, a vice president at Thomson BankWatch.

Barbara Rehm in Washington contributed to this article.



You can still find it at Balboa Life and Casualty.

By applying strict performance standards, we demand more of ourselves than our customers do.

Every one of over 160,000 claims we receive annually is put in process within one day. As a result, 95% of our life and disability claims are turned around within five days. And over 80% of our collateral protection claims are settled within ten days of receipt. It's response time like this that makes you more effective and keeps your customers satisfied.

At Balboa Life and Casualty, we approach business with the values of the past. We find the future looks better that way.

For more information, call David de Gorter, Marketing Director at 714-553-7692.

AVCO INSURANCE

BALBOA LIFE & CASUALTY

YOUR PARTNER IN INSURANCE

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov. 1, Pgs: 4, 18, 19, 22,

24, 26, 28, 29